

# SERVICING MANAGEMENT

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## Keep An Eye On Evolution

*Servicing platforms must be scalable, easy to use and built around an open architecture with optimized data access to ensure that operations are ready to react to business process and market changes.*

BY DAN SCHEUBLE

Today, most mortgage lenders find themselves in the position of having to support multiple system platforms for a variety of core functions and processes across their organizations.

For example, they may contend with several different origination platforms, often by channel, different valuation models utilized by servicing and secondary marketing groups, and disparate analytics used in servicing, origination, secondary marketing and finance. The result can be inconsistent technology performance, higher than necessary operational and technology costs, operations and control issues, and questionable data from which to make business decisions.

Since a company's business model must support the evolving needs (and business strategies) of its clients, the selection of a servicing platform to effectively support that business model is crucial. However, like many other core functional areas, mortgage lenders may be faced with servicing operations that are actually built around a collection of platforms.

The variety in platform configurations may simply be the result of years of system add-ons and technology wrap-arounds, or caused by disparate platforms that were not fully harmonized following acquisitions or mergers. This diversity can also occur when outsourced business or technical functions are integrated into the servicing system, resulting in further platform complexity.

To migrate to a coherent servicing platform, servicing executives and their

senior technology officers must determine their primary needs, and how they can be met in a single platform. Clearly, the platform must be flexible enough to fully support the business imperatives of the enterprise and powerful enough to reliably manage the transactional demands on the system.

But to effectively do both requires much more than sound design and strong technology support. The system platform must be scalable, easy to use and built around an open architecture with optimized data access. This will help servicing operations experience the versatility they need to react immediately to market opportunities, implement business process changes as customer or business needs dictate, and minimize their technology costs.

### **Balancing act**

The right servicing platform strategy must also balance and support the needs of today's business model, without interruption, while effectively linking to the longer-term, enterprise-wide business strategy. Issues like technology obsolescence, systems complexity and evolving customer needs must all be carefully considered, since the technology solutions that seem obvious today might not serve the long-term needs of the organization.

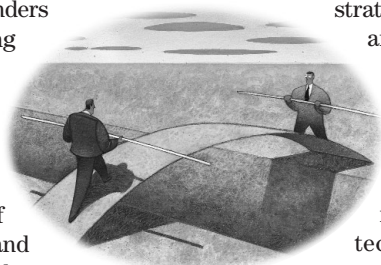
All servicing and subservicing operations are currently using some combination of technology and human intervention to meet the needs of their enterprise and their

customers. While these combinations may not fully leverage the latest platform technology or business process advances, changing those systems must still be approached with great caution.

Customers will not care that a system conversion is underway to eventually deliver more "bells and whistles" if they can't get their pay-off balance when they call for it. And employees will not wholeheartedly support the transition to a different platform if they have to deal with frustrated customers and a workload that is piling up because their normal pathway to information is no longer available.

Servicing operations that simply need enhanced or additional functionality in their servicing system may not need to immediately undertake the decision to move to a different, albeit more coherent, platform. Enhancing a sound platform or collection of platforms that have been performing reliably for years may be more prudent as an interim solution than tackling a conversion project prematurely.

By working with their servicing technology partner, organizations can often add, change or substitute functionality with far less cost and disruption of their business. Even if another platform is ultimately desirable, it may be a smarter business decision to delay the conversion decision, unless the



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servicing system is truly failing to meet the needs of the enterprise.

In circumstances where converting to another platform appears to make sense, servicing executives must first and foremost go through a comprehensive due diligence process. Detailing the functional and financial benefits that are expected from a platform change is essential, and all parties to the decision should have access to the business data they need to help them make intelligent choices. Since technology decisions should always be driven by business strategy, clearly defined performance expectations are key to good decision making. At every step along the way, assumptions should be verified, and the go-forward decision re-confirmed.

Working with an experienced technology partner throughout this process can greatly simplify information gathering and help you compare and contrast your technology needs with that of similar-sized operations.

#### ***Check around***

However, it is just smart business to thoroughly check the references of your proposed partner, and ask a lot of questions about how they have handled platform conversions for other companies. The uninterrupted support of your current business model must be non-negotiable, and the extra time you take to make sure your conversion process is professionally managed by experts (preferably with a broad range of conversions under their belt) will help minimize risk to your organization and realize the benefits you are seeking.

While it may seem that determining your long-term technology needs requires a crystal ball and even some wishful thinking, there are concrete things you can do to minimize the risk of making the wrong decisions about your servicing platform.

One of the first, and perhaps most overlooked, steps is to involve your customers and other stakeholders. Talk to them about how their needs are evolving. What features and benefits do customers believe will be most important to them in the years ahead? Subservicers should ask their clients what they see as the most important changes they expect in their own business models, and how they will need those changes supported.

Interview your employees. They can provide a wealth of knowledge and insight into how customer expectations are shift-

ing. What have they been hearing on the front lines? As a result of customer expectations, what are the persistent problems users of your current system have experienced, or the work-arounds they have developed to get the current system to better meet their needs?

Finally, take the time to meet with investors. What is their long-term business strategy? How can you make sure your technology will support that? How fast will you have to ramp up to keep pace with their requirements?

Make use of scenario modeling. Look at your own long-term business strategy and determine how your servicing technology must perform to enable your success. How might changing market conditions affect your need to adjust your strategy? How will those potential strategy adjustments affect the way your servicing platform needs to evolve? What are the probable hard and soft costs associated with possible modifications?

Obviously, no one can predict every possible scenario or how the pace of change might further impact assumptions. Making technology decisions today that will impact your organization 10 years out and beyond is a daunting task. However, you can create a road map for success by thinking of your system as a logical series of building blocks, each with a range of business processes they must support.

Each building block must be individually accessible and changeable without necessarily requiring modifications across the entire servicing system in order to provide the long-term versatility needed for cost-effective performance.

The most flexible servicing platforms will have modularity as a core tenant, since that will allow the introduction of new technology and functionality enhancements, without affecting every aspect of your system. While a tightly integrated system may have initial appeal, it can actually limit the freedom you need for selective re-building of component elements as business requirements and technology advancements dictate. It can also make it more difficult to take advantage of best-of-breed solutions that might outperform a specific block of functionality in your servicing system.

#### ***Modular designs***

In order to keep technology costs in scale with your business, both now and in the future, selecting a servicing platform with a modular design can become the

most important legacy you leave for your organization. A platform of this type is flexible, economical and greatly minimizes the long-term risk associated with your servicing technology decision.

Although an end-to-end, pre-packaged servicing solution may be workable for smaller, standardized servicing operations, most growing organizations will need a more significant level of versatility and flexibility. A modular platform can meet that need.

As a general rule of thumb, outsourcing is a viable and more economical solution than in-house development when you require services, products or technology solutions that are outside the day-to-day competencies practiced in your organization. This holds true when considering the buy versus build decision for a servicing platform.

Even the most talented architecture designers and system programmers can't build in the years of experience in the banking industry that can be found from long-term leaders in the servicing technology environment.

At the enterprise level, technology officers that are grappling with significant platform diversity (and the high costs of supporting those platforms) should be thinking about a technology infrastructure that will meet the information storage and access needs of the entire organization.

#### ***Effects of processes***

The effects of business processes should be immediately available and accessible everywhere in the organization upon the conclusion of the process transaction, regardless of where in the organization that process takes place. Therefore, executives must view the overall technology picture for their organizations before they can make good decisions about the servicing platform element.

The servicing system is a primary strategic tool to help organizations preserve and enhance their competitive advantage, streamline operations, reduce technology costs and bolster customer confidence. If uncertain about the need for or the timing of a platform conversion, talk to long-time leaders in the servicing technology space. Their technology experts can help guide your decision making in the context of your short- and long-term business strategies, while helping to ensure your customers get the uninterrupted, reliable service they expect from your company. **SM**